Federal Communications Commission

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Centennial Communications Corp.
...and Thank You for Your Comments

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Date Received:	**Apr 17 2008**
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updated 12/11/03

Before the
Federal Communications Commission
Washington, DC 20554

High-Cost Universal Service Support	WC Docket No. 05-337
Federal-State Joint Board on Universal Service	CC Docket No. 96-45

COMMENTS OF CENTENNIAL COMMUNICATIONS CORP.

Centennial Communications Corp. ("Centennial") hereby responds to the requests for comments on various matters regarding the universal service system.[1]

In Centennial's view, the Commission appears to be making the problem of universal service more complicated than it really is, with the prospect of unintentionally creating two bureaucratic and unworkable systems without meeting the underlying goals of universal service.

There is widespread recognition that the current system is complicated and expensive. And, many parties have expressed concern that the current pace of growth of the overall fund might not be sustainable. These are reasonable concerns, and, as described below, it is possible to address them with some simple and straightforward modifications to the existing universal service system. Unfortunately, the Commission's proposals compound the complexity of the existing system by proposing a duplicate cost-based mechanism for competitive eligible telecommunications companies ("CETCs"), while simultaneously contemplating complicated and time-consuming auctions. This

1 *Federal-State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, Notice of Proposed Rulemaking, 23 FCC Rcd 1467 (2008); *Federal-State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, Notice of Proposed Rulemaking, 23 FCC Rcd 1495 (2008); *Federal State Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, Notice of Proposed Rulemaking, 23 FCC Rcd 1531 (2008).

would increase the system's administrative costs for both carriers and the Commission, without directly dealing with the actual problems with the current system.

Centennial submits that the challenge facing the Commission is to recognize what the actual goals of universal service are. One possibility is to say that the point of universal service is nothing more than to ensure that everyone has some minimal access to very basic telecommunications capability. Another is to say that the real point of universal service is to support the small firms that have traditionally provided service in remote and expensive areas. Yet another is to say that all Americans – including those in high-cost rural or insular areas – should have access to the same array of services and options available in urban and suburban areas.

If the point is simply to ensure that everyone has some basic communications capability, it makes no sense to subsidize multiple providers in any given area – but it also makes no sense to subsidize even ***one***, once a provider that requires no outside support is willing to serve. This logic is simple but harsh. In practical terms, it means that the spread of wireless would be the death of all universal service subsidies – including traditional subsidies to small, rural landline carriers. Once unsubsidized wireless service is available in an area, that very fact proves there is a way to provide basic communications capability without subsidies. If the point of universal service is simply to ensure the availability of basic communications, therefore, once wireless service is available, pre-existing subsidies to landline carriers should immediately cease. The problem with this approach – if it is a problem – is that it would lead to severe financial hardship for small landline telephone companies whose business model assumes large ongoing subsidies.[2]

An entirely different view of universal service says, in effect, "if it ain't broke, don't fix it." On this logic, because in 1996 (when 47 U.S.C. §§ 214(e) and 254 became law), most people in rural areas already had some basic telephone service it was a mistake to provide support to CETCs. Continuation of the traditional landline subsidies would have kept people connected without an inordinate growth in the subsidy program. Unfortunately, this approach cannot possibly be squared with the plain, and sound, national policy of creating conditions that enable competition in the provision of all telecommunications services.[3] Giving subsidies to one provider without offering them to competitors is nothing more or less than institutionalized predatory pricing. If a hypothetical "universal coffee service" program underwrote Starbucks to allow it to sell coffee for $0.25 a cup, Caribou Coffee, Seattle's Best, and others would rightly object if they had to compete even though they were not provided with similar support. The inevitable conclusion is that unless we are prepared to relegate rural American

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2 Landline carriers would doubtless claim that their service is somehow better than wireless or more worthy of support, but the increasing trend – particularly among younger adults – of doing without any landline service at all gives undeniable, market-based proof that there is nothing "essential" about landline versus wireless service.

3 As the Commission observed in 1996, "[t]hree principal goals established by the telephony provisions of the 1996 Act are: (1) opening the local exchange and exchange access markets to competitive entry; (2) promoting increased competition in telecommunications markets that are already open to competition, including the long distance services market; and (3) reforming our system of universal service so that universal service is preserved and advanced ***as the local exchange and exchange access markets move from monopoly to competition.***" *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, First Report and Order, 11 FCC Rcd 15499 (1996), at ¶ 3 (emphasis added).

communities to the status of permanent monopolistic backwaters, support available to one vendor must be available to all.[4]

The third – and, in Centennial's view, correct – view is that the point of universal service is not merely to ensure that Americans in rural and high-cost areas can find some way to get dial tone, but, rather, to integrate those markets into the broader competitive telecommunications landscape that our nation has been trying to create for at least the last three decades.[5] If urban and suburban Americans have access to landline service, multiple wireless providers, and broadband services via landline telephone networks, cable networks, and wireless services, so too should Americans living in rural, insular, and high-cost areas. The Commission, of course, is fully aware of this consideration. Indeed, this explains why, in the same set of orders that struggle to find ways to limit existing subsidies, the Commission also seeks comment on how to ***expand*** those subsidies to embrace broadband services – services which are becoming increasingly essential to the American communications landscape.[6] In this regard, Centennial's experience as an ETC in Puerto Rico bears out the importance of this approach. Puerto Rico is, in effect, a high-tech gateway to all of Latin America, with one-third of the

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4 This is why the principle behind the "equal support rule" makes perfect sense and should be preserved. As noted below, the problem is not with the idea behind the equal support rule but, rather, with the mathematically odd way in which it has been implemented.

5 The 1996 Act is the latest and most dramatic expression of our national pro-competitive policy for telecommunications markets, but the roots of that policy are much deeper, including the antitrust case resulting in the divestiture of the old Bell System and the rulings in the *Computer Inquiries* deregulating enhanced/information services and customer premises equipment.

6 *Federal State Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, Notice of Proposed Rulemaking, 23 FCC Rcd 1531 (2008).

Fortune 500 having operations there, precisely because Puerto Rico's telecommunications infrastructure is comparable to what exists in the mainland United States – a situation in sharp contrast to other areas of Latin America. This more robust infrastructure in Puerto Rico results, in significant measure, from the fact that Puerto Rico carriers – including both the incumbent and Centennial – receive substantial universal service support.

In deciding how to approach this issue, it is important to recognize that in many respects the current universal service system is working as intended. Specifically, it is important to recognize that a robust telecommunications infrastructure is as essential to the modern economy as railroad and electric power were to 19th and early 20th Century economies. Without sufficient investment in telecommunications, rural development – both in terms of employment opportunities and robust tax bases – will inevitably lag behind development in urban areas. The current universal service system has made significant contributions to the improvement of rural America's access to advanced telecommunications infrastructure. Thanks to universal service funding, for example, carriers like Centennial have brought service to regions that formerly had ***no*** telephone service whatsoever.[7] In other rural areas of the mainland and Puerto Rico and the U.S. Virgin Islands, Centennial offers low-cost, wide-area calling for its subscribers, enabling them not only to stay in touch with family and co-workers, but also to have access to emergency and information services. And in hundreds of rural communities across the

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[7] In Concordia Parish, Louisiana, Centennial inaugurated telephone service for the communities of Shaw and Blackhawk in March 2005. Until then, the two communities had had no access to the public telephone network.

country, landline and wireless providers alike provide affordable service that keeps people connected.

The challenge, then, is to find a way to enable Americans in rural and high-cost areas to participate in the competitive and expanding communications marketplace without allowing overall subsidies to grow to unsustainable levels. Centennial submits that this can be accomplished by tweaking the existing system rather than throwing it away and starting over – which is what some of the Commission's recent proposals amount to. Landline telephone companies, for example, have never been exposed to an auction process – but that would be required under any fair implementation of the reverse auction proposal. CMRS providers have never had to file cost studies – but that would be required under another Commission proposal. Centennial submits that the result of either of these approaches would be unwarranted bureaucracy, delay and complexity.

As Centennial has suggested in earlier comments on the proposed temporary funding cap, the underlying problem does not arise from the existence of competitive ETCs, and does not arise from the equal support rule. The key problem arises because of the current system's approach to ***ILEC costs.*** Today when an ILEC receiving high-cost support loses lines – including direct losses to wireless competitors – the system does not show a corresponding reduction in ILEC costs. Instead, the assumption is that ILEC costs are not reduced, so that, in calculating the per-line support available to CETCs, the same amount of ILEC cost is spread over fewer lines. This results in a higher per-line ILEC cost, which translates into a higher "equal support" payment to the CETC.

The Commission is well aware that the number of landline lines is on the decline; the number of wireless lines is on the increase, and the number of people using wireless as their sole or primary connection to the public network is increasing as well.[8] The policy implication of these trends is that it is no longer reasonable to view landline service as the "default case" on which universal service policy should be based. There is certainly no reason to think that when a landline line goes out of service, the investment associated with that line should remain in the cost base for determining universal service support. With wireless penetration at or above 80% of the entire US population,[9] the plain and unequivocal judgment of the marketplace is that wireless, not landline, is the new "basic" form of voice communication. Given all this, Centennial suggests that the following proposal would be a reasonable ***permanent*** means of dealing with concerns about the growth of the universal service fund. First, the level of ***per line*** support available to both ILECs and competitive ETCs in any given area should be capped at the ***per line*** levels that were in effect as of some date certain that the Commission would designate. Second, using line counts as of that date as a base, each ETC's support in an area should be adjusted up or down (either annually or quarterly) entirely on the basis of changes in that ETC's in-service line counts. This means that if a carrier loses lines, its support will go down, while if it gains lines, its support will go up.

This proposal will have the effect of tying the amount of support for a given area directly to the number of lines of supported service being provided in that area, which makes sense. It will also eliminate the mathematical oddity of ILECs increasing their

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8 *See In the Matter of Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993 Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services,* WT Docket No. 07-71 (Terminated), Twelfth Report, 23 FCC Rcd 2241 (2008) ("*Twelfth Report*") at page 6 (wireless penetration at 80% of US population as of year-end 2006); *id.* at 10 (as of year-end 2006 nearly 12% of adults lived in homes with only wireless phones – triple the level from 2003 – and more than double that percentage applied for adults under age 30).

9 *Twelfth Report* at 10.

per-line subsidy revenues as a "reward," in effect, for losing customers, as well as the oddity of passing that unearned "reward" on to competitive ETCs. In this regard, while there are many complex issues surrounding universal service, common sense dictates that a provider who loses customers and provides less service should receive less support, while a provider that gains customers and provides more service should receive more.

Moreover, Centennial submits that to the extent that growth of the universal service fund in recent years has been driven by growth in wireless subscribers (and not by the peculiarities of the computation of per-line support), that factor will become less important over time. As a recent Commission report notes, as of the end of 2006 there were approximately 242 million wireless subscribers in the United States. Given that our total population is only about 300 million, this subscribership level suggests that 4 out of 5 Americans already have a wireless telephone.[10] The rapid subscribership growth that led to this high penetration level obviously cannot continue; as a result, growth of the fund driven by pure subscribership growth will, necessarily, slow down in the near future.

Centennial's simple proposal is fair, competitively neutral, and flexible. For example, if necessary to prevent unwarranted growth in the total amount of universal service funding, the Commission could reduce the amount of per-line support available for supported voice services over time, perhaps by a certain percentage every five years. Carriers, aware that the amount of support would be declining, would be highly motivated to manage their costs downward in anticipation of the funding declines.[11] On the other hand, to the extent that the Commission chooses to add broadband

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10 *See Twelfth Report* at page 6.

11 In this respect, the efficiency-enhancing effects of the Commission's successful implementation of price cap regulation for ILECs would be brought to bear in the universal service context.

(appropriately defined by the Commission) to the set of supported services, a concept that Centennial endorses, it could simply declare that an additional per-line subsidy of some pre-set amount would be provided for each broadband connection a carrier actually supplies.[12]

Even while being flexible, Centennial's proposal would also add a large measure of predictability and transparency to the universal service funding process. Under the current system, the amount of funding a CETC receives can be highly variable, because it depends not only on the ILEC's underlying costs (which at least arguably should be relatively stable) but also on the rate at which the ILEC is losing lines. As a result, it is hard to predict how much support will be available for an area even one or two years in advance, much less over the five or ten year period that is necessary to plan the deployment of the long-lived network infrastructure that universal service funding is intended to support. Centennial – a relatively small, publicly traded CETC – has seen material year-over-year swings in its support amounts from the current system, with no meaningful ability to plan for these changes in revenue and sometimes no clear understanding, even after the fact, of why they occurred. This result is not unique to Centennial but to other CETCs as well. A simple fixed-support-per-line approach would eliminate the uncertainties and non-transparency of the current system, to the benefit of ETCs and the public alike.

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12 Centennial's proposal also avoids another problem with those being advanced by the Commission. Most CETCs are wireless carriers, who for more than a decade have not been subject to significant state-level regulation. The Commission's proposals would have the effect of injecting state regulatory considerations more and more into wireless operations. Centennial's proposal, by contrast, would not create this pressure for additional regulation of wireless.

It is true that Centennial's simple proposal would almost certainly result in ILECs receiving less money today than they do under the current system, and even less over time as wireless slowly replaces landline service as the primary form of voice communications in the country. However, under Centennial's proposal this decline in support would be gradual and could be tempered by increases in broadband deployment. It would also be at least in part under their control, in that competitive efforts to retain customers by providing better service would be rewarded with a slower decline in universal service support. And the slow decline in support to ILECs would be much less dramatic under this proposal than under (for example) the Commission's "reverse auction" proposal, which has a very good prospect of leaving some ILECs either with no support at all or with vastly reduced support levels.

In sum, capping ***per line*** support for both ILECs and competitive ETCs at some fixed level, with adjustments based on number of lines in service, would relieve the pressure on the growth of the fund, would tie subsidy receipts to the amount of supported services actually provided, and would be simple to administer. It would therefore be far superior to the elaborate reverse auctions, cost studies, and other administrative complexities inherent in the alternatives the Commission has put forward. Centennial, therefore, urges the Commission to reject those alternatives and adopt Centennial's fair and straightforward proposal.

Respectfully submitted,

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